

Smith Barney Health Sciences Fund  
Smith Barney High Growth Portfolio  
Smith Barney High Income Fund  
Smith Barney Income Portfolio  
Smith Barney Institutional Cash Management Fund Inc  
Smith Barney Intermediate Maturity California Municipal Fund  
Smith Barney Intermediate Maturity New York Municipal Fund  
Smith Barney International All Cap Growth Portfolio  
Smith Barney International Large Cap Fund  
Smith Barney Investment Grade Bond Fund  
Smith Barney Large Cap Core Fund  
Smith Barney Large Cap Growth and Value Fund  
Smith Barney Large Cap Value Fund  
Smith Barney Large Capitalization Growth Fund  
Smith Barney Limited Term Portfolio  
Smith Barney Managed Government Fund  
Smith Barney Managed Municipal Fund Inc  
Smith Barney Massachusetts Municipal Fund  
Smith Barney Mid Cap Core Fund  
Smith Barney Money Funds Inc  
Smith Barney Multiple Discipline Trust  
Smith Barney Municipal High Income Fund  
Smith Barney Municipal Money Market Fund Inc  
Smith Barney National Portfolio  
Smith Barney New Jersey Municipal Fund  
Smith Barney New York Portfolio  
Smith Barney Oregon Municipal Fund  
Smith Barney Pennsylvania Portfolio  
Smith Barney Principal Return Fund  
Smith Barney S&P 500 Index Fund  
Smith Barney SB Adjustable Rate Income Fund  
Smith Barney SB Capital and Income Fund  
Smith Barney SB Convertible Fund  
Smith Barney Shearson Telecommunications Trust  
Smith Barney Short Duration Municipal Income Fund  
Smith Barney Short Term Investment Grade Bond Fund  
Smith Barney Small Cap Core Fund Inc  
Smith Barney Small Cap Growth Fund  
Smith Barney Small Cap Growth Opportunities Fund  
Smith Barney Small Cap Value Fund  
Smith Barney Social Awareness Fund  
Smith Barney Technology Fund  
Smith Barney Total Return Bond Fund  
Smith Barney U.S. Government Securities Fund  
Travelers Series Fund Inc, F/K/A : "Smith Barney Travelers Series Fund Inc"

**EXHIBIT “B”**

**EXHIBIT B**  
**Registrants**

- 1 Salomon Brothers Capital Fund Inc
- 2 Salomon Brothers Emerging Markets Debt Fund Inc.
- 3 Salomon Brothers Investors Fund Inc
- 4 Salomon Brothers Opportunity Funds
- 5 Salomon Brothers Series Funds Inc
- 6 Salomon Funds Trust
- 7 Smith Barney Adjustable Rate Government Income Fund
- 8 Smith Barney Appreciation Fund Inc
- 9 Smith Barney Arizona Municipal Funds Inc
- 10 Smith Barney California Municipal Funds Inc
- 11 Smith Barney Concert Series Inc
- 12 Smith Barney Equity Funds
- 13 Smith Barney Funds Inc
- 14 Smith Barney Income Funds
- 15 Smith Barney Institutional Cash Management Fund Inc
- 16 Smith Barney Investment Funds Inc /MD/
- 17 Smith Barney Investment Series
- 18 Smith Barney Investment Trust
- 19 Smith Barney Managed Municipal Funds Inc
- 20 Smith Barney Massachusetts Municipal Funds
- 21 Smith Barney Money Funds Inc
- 22 Smith Barney Multiple Discipline Trust
- 23 Smith Barney Muni Funds
- 24 Smith Barney Municipal Money Market Fund Inc
- 25 Smith Barney Principal Return Fund
- 26 Smith Barney Sector Series Funds
- 27 Smith Barney Shearson Aggressive Growth Fund Inc
- 28 Smith Barney Shearson Fundamental Value Fund Inc
- 29 Smith Barney Shearson Managed Governments Fund Inc
- 30 Smith Barney Shearson New Jersey Municipal Funds Inc
- 31 Smith Barney Shearson Oregon Municipal Fund
- 32 Smith Barney Shearson Telecommunications Trust
- 33 Smith Barney Small Cap Core Fund Inc
- 34 Smith Barney Trust II
- 35 Smith Barney World Funds Inc
- 36 Travelers Series Fund Inc

**EXHIBIT "C"**

**EXHIBIT C**  
**Proprietary Funds' Stated Investment Selection Processes**

**I. SALOMON BROTHERS CAPITAL FUND INC**

**1. Salomon Brothers Capital Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

- The manager emphasizes individual security selection while diversifying the fund's investments across industries, which may help to reduce risk. The manager seeks to identify those companies which offer the greatest potential for capital appreciation through careful fundamental analysis of each company and its financial characteristics. The manager evaluates companies of all sizes but emphasizes those with market capitalizations above \$1 billion. In selecting individual companies for investment, the manager looks for the following: Security prices which appear to undervalue the company's assets or do not adequately reflect factors such as favorable industry trends, lack of investor recognition or the short-term nature of earnings declines. Special situations such as existing or possible changes in management, corporate policies, capitalization or regulatory environment which may boost earnings or the market price of the company's securities. Growth potential due to technological advances, new products or services, new methods of marketing or production, changes in demand or other significant new developments which may enhance future earnings.

---

**II. SALOMON BROTHERS EMERGING MARKETS DEBT FUND INC**

**1. Salomon Brothers Emerging Markets Debt Fund Inc  
(Prospectus filed 12/3/2003)**

**Selection Process**

In selecting investments for the Fund, the Fund's Investment Manager uses a combination of qualitative assessments and quantitative models which seek to measure the relative risks and opportunities of each market segment based upon economic, market, political, currency and technical data and its own assessment of economic and market conditions to create an optimal risk/return allocation of the Fund's assets among various segments of the emerging markets debt market. After the Investment Manager makes its sector allocations, the Investment Manager uses traditional credit analysis to identify individual securities for the Fund's portfolio.

- In selecting foreign and emerging market issuer debt for investment, the Investment Manager considers the economic and political conditions within the issuer's country, overall and external debt levels and debt service ratios, access to capital markets and debt service payment history.
- 

### **III. SALOMON BROTHERS INVESTORS FUND INC**

#### **1. Salomon Brothers Investors Value Fund (Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

##### **HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The manager emphasizes individual security selection while diversifying the fund's investments across industries, which may help to reduce risk. The manager focuses on established large capitalization companies (over \$5 billion in market capitalization), seeking to identify those companies with favorable valuations and attractive growth potential. The manager employs fundamental analysis to analyze each company in detail, ranking its management, strategy and competitive market position

In selecting individual companies for investment, the manager looks for:

- Share prices that appear to be temporarily oversold or do not reflect positive company developments
- Share prices that appear to undervalue the company's assets, particularly on a sum-of-the-parts basis.
- Special situations including corporate events, changes in management, regulatory changes or turnaround situations
- Company specific items such as competitive market position, competitive products and services, experienced management team and stable financial condition.

**(Salomon Brothers Series Funds Inc Prospectuses filed in 1999, 2000, and 2001)**

##### **HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The manager emphasizes individual security selection while diversifying the fund's investments across industries, which may help to reduce risk. The manager focuses on established large capitalization companies (over \$5 billion in market capitalization), seeking to identify those companies with solid growth potential at reasonable values. The manager employs fundamental analysis to analyze each company in detail, ranking its management, strategy and competitive market position.

In selecting individual companies for investment, the manager looks for:

- Long-term history of performance
  - Competitive market position
  - Competitive products and services
  - Strong cash flow
  - High return on equity
  - Strong financial condition
  - Experienced and effective management
  - Global scope
- 

#### **IV. SALOMON BROTHERS OPPORTUNITY FUNDS**

##### **1. Salomon Brothers Opportunity Funds (Salomon Brothers Series Funds Inc Prospectus filed 12/29/2003)**

###### **How The Manager Selects The Fund's Investments**

The Manager emphasizes individual security selection while varying the Fund's investments across industries, which may help to reduce risk. The Manager evaluates companies of all sizes -- from established large capitalization companies to young start-up companies. The Manager seeks to identify those companies whose securities are trading at prices which are below the company's intrinsic value. This style of stock selection is known as 'value' investing. The Manager employs fundamental analysis to analyze each company in detail, ranking its management, strategy and competitive market position.

The Manager currently pursues a strategy of retaining unrealized long-term capital gain and avoiding the tax impact of realizing such gain. This strategy reflects the belief of the Manager that these securities continue to have long-term growth potential.

In selecting individual companies for investment, the Manager considers how the following would affect a company's earnings, the market price of its shares and the market's evaluation of the company's future earnings:

- Changes in management, policies, corporate control or capitalization;
- Changes in technology, marketing or production, the development of new products or services or the demand for existing products or services;
- The effect of recent and anticipated capital expenditures; and
- The effect of social, economic, political, legal and international developments

V. **SALOMON BROTHERS SERIES FUND INC.**

1. **Salomon Brothers All Cap Value Fund**  
**(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The manager employs a two-step stock selection process in its search for undervalued stocks of temporarily out of favor companies. First, the manager uses proprietary models and fundamental research to try to identify stocks that are underpriced in the market relative to their fundamental value. Next, the manager looks for a positive catalyst in the company's near term outlook which the manager believes will accelerate earnings or improve the value of the company's assets. The manager also emphasizes companies in those sectors of the economy which the manager believes are undervalued relative to other sectors.

When evaluating an individual stock, the manager looks for:

- Low market valuations measured by the manager's valuation models.
- Positive changes in earnings prospects because of factors such as:
  - New, improved or unique products and services.
  - New or rapidly expanding markets for the company's products.
  - New management.
  - Changes in the economic, financial, regulatory or political environment particularly affecting the company.
  - Effective research, product development and marketing.
  - A business strategy not yet recognized by the marketplace

---

2. **Salomon Brothers Balanced Fund**  
**(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

In selecting stocks for investment, the manager applies a bottom-up analysis, focusing on companies with:

- Large market capitalizations.
- Favorable dividend yields and price-to-earnings ratios.
- Stocks that historically have been less volatile than the market as a whole.
- Strong balance sheets.
- A catalyst for appreciation and restructuring potential, product innovation or new development.

The manager considers both macroeconomic and issuer specific factors in selecting debt securities for its portfolio. In assessing the appropriate maturity, rating and sector weighting of the fund's portfolio, the manager considers a variety of macroeconomic factors that are expected to influence economic activity and interest rates. These factors include fundamental economic indicators, Federal Reserve monetary policy and the relative value of the U.S. dollar compared to other currencies. Once the manager determines the preferable portfolio characteristic, the manager selects individual securities based upon the terms of the securities (such as yields compared to U.S. Treasuries or comparable issuers), liquidity and rating, and sector and issuer diversification. The manager also employs fundamental research and due diligence to assess an issuer's:

- Credit quality taking into account financial condition and profitability.
  - Future capital needs
  - Potential for change in rating and industry outlook
  - Management's ability to be competitive in its particular industry.
- 

**3. Salomon Brothers High Yield Bond Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

Individual security selection is driven by the manager's economic view, industry outlook and rigorous credit analysis. The manager then selects those individual securities that appear to be most undervalued and to offer the highest potential returns relative to the amount of credit, these securities. The manager allocates the fund's investments across a broad range of issuers and industries, which can help to reduce risk

In evaluating the issuer's creditworthiness, the manager employs fundamental analysis and considers the following factors:

- The strength of the issuer's financial resources.
- The issuer's sensitivity to economic conditions and trends
- The issuer's operating history.
- The experience and track record of the issuer's management or political leadership.

**4. Salomon Brothers International Equity Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29,  
2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The fund's subadviser looks for the securities of well-established companies (typically with capitalizations of \$750 million or more) believed to have superior management teams and histories of above-average revenues and earnings growth which appear to be reasonably valued compared to their long-term earnings potential. The subadviser uses fundamental analysis to find companies that it believes have growth potential, and looks first at a particular company and then at the country in which the company is located and the industry in which the company participates. The subadviser eliminates stocks that it believes are overpriced relative to a company's financial statements and projections. The subadviser then analyzes company to find those believed to have superior management teams, solid product lines, strong competitive positioning, attractive cash flows and histories of above-average revenues and earnings growth. The subadviser seeks opportunities to invest in foreign economies that are growing faster than the U.S. economy.

**(Salomon Brothers Series Funds Inc Prospectus filed in 2000, 2001, 2002)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

In selecting portfolio securities, Citibank, N.A., the fund's subadviser, employs a disciplined investment process that emphasizes individual security selection. The investment focus is on companies that participate in growth industries and can deliver sustainable, above average growth in earnings per share over a two to three year horizon. Final security selection is a function of detailed industry and company specific analysis and ongoing interviews with the company's senior management. A strict valuation discipline is employed to insure that the fund does not overpay for earnings growth. The fund closely monitors the investment on an ongoing basis for possible changes in company or industry fundamentals.

Turnover is typically low, and the average holding period for a fund investment is currently three years. The subadviser manages the fund's portfolio compared to its benchmark, the MSCI EAFE<sup>®</sup> Index, which is not hedged, and therefore, typically does not hedge portfolio securities or currencies. The subadviser may, however, engage in hedging strategies when it believes it is desirable to do so. The fund seeks to reduce overall portfolio risk by investing in a wide range of countries.

**5. Salomon Brothers Large Cap Growth Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The subadviser seeks to create a diversified portfolio of well established large capitalization companies with a proven track record of consistent, above average earnings and revenue growth, solid prospects for continued superior, and an effective management team committed to these goals.

The subadviser incorporates quantitative analysis, multi-factor screens and models, as well as fundamental stock research to identify high quality, large companies that exhibit the potential for sustainable growth. In selecting individual companies for investment, the subadviser screens companies on the following factors:

- Earnings per share growth
- Earnings per share growth consistency.
- Sales growth.
- Return on shareholder equity
- Strength of balance sheet

---

**6. Salomon Brothers Short/Intermediate U.S. Government Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The manager focuses on identifying undervalued sectors and securities. Specifically, the manager:

- Monitors the spread between U.S. Treasury and government agency or instrumentality issues and purchases agency and instrumentality issues which it believes will provide a total return advantage.
- Determines sector or maturity weightings based on intermediate and long-term assessments of the economic environment and relative value factors based on interest rate outlook
- Uses research to uncover inefficient sectors of the and mortgage markets and adjusts portfolio positions to take advantage of new information.
- Measures the potential impact of supply/demand imbalances, yield curve shifts and changing prepayment patterns to identify individual securities that balance potential return and risk.

**7. Salomon Brothers Small Cap Growth Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29,  
2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The manager emphasizes companies which it believes have favorable growth prospects and potential for significant capital appreciation. In selecting individual companies for investment, the manager looks for:

- Companies that either occupy a dominant position in an emerging industry or a growing market share in larger, fragmented industries.
  - Favorable sales and/or earnings growth trends.
  - High or improving return on capital.
  - Strong financial condition.
  - Experienced and effective management.
- 

**8. Salomon Brothers Strategic Bond Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29,  
2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The manager uses a combination of quantitative models which to measure the relative risks and opportunities of each market segment based upon economic, market, political, currency and technical data and its own assessment of economic and market conditions to create an optimal risk/return allocation of the fund's assets among various segments of the fixed income market. After the manager makes its sector allocations, the manager uses traditional credit analysis to identify individual securities for the fund's portfolio.

In selecting corporate debt for investment, the manager considers the issuer's:

- Financial condition.
- Sensitivity to economic conditions and trends.
- Operating history.
- Experience and track record of management.

In selecting foreign government debt for investment, the manager considers the issuer's:

- Economic and political conditions within the issuer's country.
- Overall and external debt levels and debt service ratios
- Access to capital markets.
- Debt service payment history

In selecting U.S. government and agency obligations and mortgage-backed securities for investment, the manager considers the following factors:

- Yield curve shifts
  - Credit quality
  - Changing prepayment patterns
- 

## **VI. SALOMON FUNDS TRUST**

### **1. Salomon Brothers California Tax Free Bond Fund (Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

#### **HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

When selecting securities for the fund and managing the portfolio, the manager looks for both income and potential gain. The fund is managed by employing a combination of qualitative and quantitative analysis. The manager decides which securities to purchase by first developing an interest rate forecast and analysis of general economic conditions for the United States as a whole, with a particular focus on California. Then the manager compares specific sectors to identify broad segments of the municipal market poised to benefit in this environment. The manager also closely studies the yields and other characteristics of specific issues to identify attractive opportunities. The manager seeks to add value by investing in a range of municipal bonds, representing different market sectors, structures and maturities. The manager uses this same approach when deciding which securities to sell. Securities are sold when the fund needs cash to meet redemptions, or when the manager believes that better opportunities exist or that the security no longer fits within the manager's overall strategies for achieving the fund's investment objective.

**(Salomon Brothers Series Funds Inc Prospectuses filed in 1999, 2000, 2001 and 2002 under the name California Tax Free Income Fund)**

Citibank seeks to minimize the Fund's exposure to the risk of default by investing in debt securities that are:

- Investment grade (investment grade securities are those rated Baa or better by Moody's or BBB or better by Standard & Poor's, or which Citibank believes to be of comparable quality), or
- Issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities, or
- Obligations (including certificates of deposit, bankers' acceptances and repurchase agreements) of banks with at least \$1 billion of assets.

**2. Salomon Brothers Mid Cap Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

The manager emphasizes medium sized U S. companies with good prospects for revenue and earnings growth that meet the manager's valuation criteria. In selecting investments, the manager looks for issuers that are among the leaders in their industries.

- The manager generally uses a 'bottom-up' approach when selecting securities for the fund. This means that the manager looks primarily at individual companies against the context of broader market forces.

---

**3. Salomon Brothers National Tax Free Bond Fund  
(Salomon Brothers Series Funds Inc Prospectus filed April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

When selecting securities for the fund and managing the portfolio, the manager looks for both income and potential for gain. The fund is managed using a combination of qualitative and quantitative analysis. The manager decides which securities to purchase by first developing an interest rate forecast and analysis of general economic conditions throughout the United States. Then the manager compares specific regions and sectors to identify broad segments of the municipal market poised to benefit in this environment. The manager also closely studies the yields and other characteristics of specific issues to identify attractive opportunities. The manager uses a geographically diversified approach, seeking a portfolio of bonds representing a wide range of sectors, maturities and regions. The manager uses this same approach when deciding which securities to sell. Securities are sold when the fund needs cash to meet redemptions, or when the manager believes that better opportunities exist or that the security no longer fits within the manager's overall strategies for achieving the fund's investment objective.

(Prospectuses filed in 1999, 2000, 2001 and 2002)

Citibank seeks to minimize the Fund's exposure to the risk of default by investing in debt securities that are:

- Investment grade (investment grade securities are those rated Baa or better by Moody's or BBB or better by Standard & Poor's, or which Citibank believes to be of comparable quality), or
- Issued or guaranteed by the U S. Government or one of its agencies or instrumentalities, or

- Obligations (including certificates of deposit, bankers' acceptances and repurchase agreements) of banks with at least \$1 billion of assets.
- 

**4. Salomon Brothers New York Tax Free Bond Fund  
(Salomon Brothers Series Funds Inc Prospectus filed  
April 29, 2003)**

**HOW THE MANAGER SELECTS THE FUND'S INVESTMENTS**

When selecting securities for the fund and managing the portfolio, the manager looks for both income and potential for gain. The fund is managed with a combination of qualitative and quantitative analysis. The manager decides which securities to purchase by first developing an interest rate forecast and analysis of general economic conditions for the United States as a whole, with a particular focus on the New York area. The manager compares specific sectors to identify broad segments of the municipal market poised to benefit in this environment. The manager also closely studies the yields and other characteristics of specific issues to identify attractive opportunities. The manager seeks to add value by investing in a range of municipal bonds, representing different market sectors, structures and maturities. The manager uses this same approach when deciding which securities to sell. Securities are sold when the fund needs cash to meet redemptions, or when the manager believes that better opportunities exist or that the security no longer fits within the manager's overall strategies for achieving the fund's investment objective.

**(Salomon Brothers Series Funds Inc Prospectuses filed in 1999, 2000, and 2001)**

Citibank seeks to minimize the Fund's exposure to the risk of default by investing in debt securities that are:

- Investment grade (investment grade securities are those rated Baa or better by Moody's or BBB or better by Standard & Poor's, or which Citibank believes to be of comparable quality), or
  - Issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities, or
  - Obligations (including certificates of deposit, bankers' acceptances and repurchase agreements) of banks with at least \$1 billion of assets.
- 

**VII. SMITH BARNEY ADJUSTABLE RATE GOVERNMENT INCOME FUND**

**1. Smith Barney SB Adjustable Rate Government Income Fund  
(Prospectus filed 9/26/2003)**

Selection process

The fund's manager seeks to achieve low volatility of net asset value by diversifying the fund's assets among investments the manager believes will, in the aggregate, be resistant to significant fluctuations in market value. The manager evaluates the attractiveness of different sectors of the bond market and values individual securities within those sectors relative to other available securities.

In selecting individual securities for the fund's portfolio, the manager takes into account various factors that may affect the fund's volatility, including:

- Remaining time to the security's next interest rate reset date
- The security's payment characteristics

The security's impact on the dollar weighted average life of the fund's portfolio

---

## **VIII. SMITH BARNEY APPRECIATION FUND INC.**

### **1. Smith Barney Appreciation Fund Inc. (Prospectus Filed April 30, 2003)**

Selection process

The manager's investment strategy consists of individual company selection and management of cash reserves. The manager looks for investments among a strong core of growth stocks, consisting primarily of blue chip companies dominant in their industries. The fund may also invest in companies with prospects for sustained earnings growth and/or a cyclical earnings record

In selecting individual companies for the fund's portfolio, the manager looks for the following:

- Strong or rapidly improving balance sheets
- Recognized industry leadership
- Effective management teams that exhibit a desire to earn consistent returns for shareholders

In addition, the manager considers the following characteristics:

- Past growth records
- Future earnings prospects
- Technological innovation
- General market and economic factors
- Current yield or potential for dividend growth

Generally, companies in the fund's portfolio fall into one of the following categories:

- Undervalued companies: companies with assets or earning power that are either unrecognized or undervalued. The manager generally looks for a catalyst that will unlock these values. The manager also looks for companies that are expected to have unusual earnings growth or whose stocks appear likely to go up in value because of marked changes in the way they do business (for example, a corporate restructuring).
- Growth at a reasonable price: companies with superior demonstrated and expected growth characteristics whose stocks are available at a reasonable price. Typically, there is strong recurring demand for these companies' products.

The manager adjusts the amount held in cash reserves depending on the manager's outlook for the stock market. The manager will increase the fund's allocation to cash when, in the manager's opinion, market valuation levels become excessive. The manager may sometimes hold a significant portion of the fund's assets in cash while waiting for buying opportunities or to provide a hedge against stock market declines.

---

## **IX. SMITH BARNEY ARIZONA MUNICIPALS FUND INC.**

### **1. Smith Barney Arizona Municipal Fund Inc. (Prospectus filed September 26, 2003)**

#### **Selection process**

The manager selects securities primarily by identifying undervalued sectors and individual securities, while also selecting securities it believes will benefit from changes in market conditions. In selecting individual securities, the manager:

- Uses fundamental credit analysis to estimate the relative value and attractiveness of various securities and sectors and to exploit opportunities in the municipal bond market
- May trade between general obligation and revenue bonds and among various revenue bond sectors, such as housing, hospital and industrial development, based on their apparent relative values
- Considers the yield available for securities with different maturities and a security's maturity in light of the outlook for the issuer, its sector and interest rates
- Identifies individual securities with the most potential for added value, such as those involving unusual situations, new issuers, the potential for credit upgrades, unique structural characteristics or innovative features

**X. SMITH BARNEY CALIFORNIA MUNICIPALS FUNDS INC**

**1. Smith Barney California Municipal Funds Inc  
(Prospectus filed 6/25/2003)**

Selection process

The manager selects securities primarily by identifying undervalued sectors and individual securities, while also selecting securities it believes will benefit from changes in market conditions. In selecting individual securities, the manager:

- Uses fundamental credit analysis to estimate the relative value and attractiveness of various securities and sectors and to exploit opportunities in the municipal bond market
- May trade between general obligation and revenue bonds and among various revenue bond sectors, such as housing, hospital and industrial development, based on their apparent relative values
- Considers the yield available for securities with different maturities and a security's maturity in light of the outlook for the issuer and its sector and interest rates
- Identifies individual securities with the most potential for added value, such as those involving unusual situations, new issuers, the potential for credit upgrades, unique structural characteristics or innovative features

---

**XI. SMITH BARNEY CONCERT ALLOCATION SERIES INC.**

**1. Smith Barney Concert Allocation Series Inc., N/K/A Smith Barney Allocation Series Inc. (See 485BPOS filed May 29, 2003.)**

The following Proprietary Funds administered by Smith Barney Allocation Series Inc. are "funds of funds" and invest only in other Proprietary Funds and do not independently select non-Proprietary Fund securities for investment and do not disclose to customers that the Proprietary Funds in which they are invested make false, incomplete and misleading statements in their prospectuses regarding their securities investment selection processes:

- Smith Barney Balanced Portfolio
- Smith Barney Conservative Portfolio
- Smith Barney Global Portfolio
- Smith Barney Growth Portfolio
- Smith Barney High Growth Portfolio
- Smith Barney Income Portfolio

## XII. **SMITH BARNEY EQUITY FUNDS**

### 1. Smith Barney Social Awareness Fund (Prospectus filed May 29, 2003)

Selection process

#### **Equity Securities.**

The fund invests in a broad range of companies, industries and sectors, without regard to market capitalization. The manager uses a "core" approach to selecting equity securities.

In selecting individual equity securities, the manager looks for companies it believes are undervalued. Specifically, the manager looks for:

- Attractive risk-adjusted price/earnings ratio, relative to growth
- Positive earnings trends
- Favorable financial condition

#### **Fixed Income Securities.**

In selecting fixed income investments, the manager:

- Determines sector and maturity weightings based on intermediate and long-term assessments of the economic environment and interest rate outlook
- Uses fundamental credit analysis to determine the relative value of bond issues
- Identifies undervalued bonds and attempts to avoid bonds that may be subject to credit downgrades

#### **Social Awareness Criteria.**

As a component of the selection process, the manager considers whether, relative to other companies in an industry, a company that meets these investment criteria also is sensitive to social issues related to its products, services, or methods of doing business

Social factors considered include:

- Fairness of employment policies and labor relations
- Involvement in community causes
- Efforts and strategies to minimize the negative impact of business activities and products and to embrace alternatives to unsafe, polluting and wasteful activities or products
- Responsibility and fairness of advertising and marketing practices

In addition, the fund seeks to avoid investing in a company if the manager has significant reason to believe it is engaged in:

- Tobacco production
  - Production of weapons
  - Ownership or design of nuclear facilities
- 

### **XIII. SMITH BARNEY FUNDS INC.**

#### **1. Smith Barney Large Cap Value Fund (Prospectus filed 4/29/2003)**

##### **Selection Process**

The manager emphasizes individual security selection while diversifying the fund's investments across industries, which may help to reduce risk. The manager seeks to identify those companies with favorable valuations and attractive growth potential. The manager employs fundamental analysis to analyze each company in detail, evaluating its management, strategy and competitive market position.

In selecting individual companies for investment, the manager looks for:

- Share prices that appear to be temporarily oversold or do not reflect the positive company developments.
  - Share prices that appear to undervalue the company's assets, particularly on a sum-of-the-parts basis
  - Special situations including corporate events, changes in management, regulatory changes or turnaround situations
  - Company specific items such as competitive market position, competitive products and services, experienced management team and stable financial situation.
- 

#### **2. Smith Barney Short-Term High Grade Bond Fund (Prospectus filed 4/29/2003)**

##### **Selection process**

The manager focuses on minimizing fluctuations in the fund's net asset value by identifying short-term fixed income securities the manager believes are undervalued and that offer better protection of capital given current interest rate and market conditions. In selecting individual securities for investment, the manager:

- Monitors the spreads between U.S. Treasury and government agency or instrumentality issuers and purchases agency and instrumentality issues that it believes will provide a yield advantage

- Determines sector and maturity weightings based on assessments of the economic environment and relative value factors based on interest rate outlook
  - Measures the potential impact of supply/demand imbalances, yield curve shifts and changing prepayment patterns to identify individual securities that balance potential return and risk
  - Uses research to uncover inefficient sectors of the government securities and mortgage markets and adjusts portfolio positions to take advantage of new information
- 

**3. Smith Barney U.S. Government Securities Fund  
(Prospectus filed 4/29/2003)**

Selection process

The manager selects individual securities that it believes are undervalued or will offer better protection of capital during periods of changing market conditions. The manager spreads the fund's investments among various sectors, focusing more heavily on sectors it believes will experience less price volatility given prevailing interest rates and expected interest rate movements. In selecting individual securities, the manager:

- Determines sector and maturity weightings based on intermediate and long-term assessments of the economic environment and relative value factors based on interest rate outlook
- Measures the potential impact of supply/demand imbalances, yield curve shifts and changing prepayment patterns to identify individual securities that balance potential return and risk
- Monitors the spreads between U S Treasury and government agency or instrumentality issuers and purchases agency and instrumentality issues that it believes will provide a yield advantage

Uses research to uncover inefficient sectors of the government securities and mortgage markets and adjusts portfolio positions to take advantage of new information

---

**XIV. SMITH BARNEY INCOME FUNDS**

**1. Salomon Brothers SB Capital and Income Fund  
(Prospectus filed May 19, 2003)**

How the Manager selects the fund's investments

The manager employs fundamental research and due diligence to assess a company's:

- Growth potential, stock price, potential appreciation and valuation

- Credit quality taking into account financial condition and profitability
  - Future capital needs
  - Potential for change in bond rating and industry outlook
  - Competitive environment and management ability
- 

**2. Salomon Brothers SB Convertible Fund  
(Prospectus filed November 28, 2003)**

Selection process

In evaluating a convertible security, the sub-adviser analyzes both the equity and the fixed income characteristics of the security.

Equity characteristics the sub-adviser looks for include:

- Companies with potential for real, sustainable growth
- Companies with competent and accessible management
- Companies with favorable cash flow
- Securities of companies in which the sub-adviser believes the underlying common stock has the potential for significant appreciation over a 12-18 month period

Fixed income characteristics the sub-adviser looks for include:

- Favorable financial condition and capital structure
  - Securities structured in a manner that reduces risk
  - Securities where the yield more than compensates for the degree of risk
- 

**3. Smith Barney Capital and Income Fund  
(Prospectus filed May 19, 2003)**

Selection process

The manager employs fundamental research and due diligence to assess a company's:

- Growth potential, stock price, potential appreciation and valuation
- Credit quality, taking into account financial condition and profitability
- Future capital needs
- Potential for change in bond rating and industry outlook
- Competitive environment and management ability

**4. Smith Barney Diversified Strategic Income Fund  
(Prospectus filed November 28, 2003)**

Selection process

The manager uses a combination of quantitative models that seek to measure the relative risks and opportunities of each market segment based upon economic, market, political, currency and technical data and its own assessment of economic and market conditions in an effort to create an optimal risk/return allocation of the fund's assets among various segments of the fixed income market. After the manager makes its sector allocations, the manager uses traditional credit analysis to identify individual securities for the fund's portfolio.

Government and mortgage- and asset-backed securities

In selecting government and mortgage- and asset-backed securities, the manager focuses on identifying undervalued sectors and securities. Specifically, the manager:

- Emphasizes those sectors and maturities that seem to be most undervalued or appropriate based on the manager's economic and interest rate outlook
- Monitors the yield spreads between U.S. Treasury and government agency or instrumentality securities and purchases agency and instrumentality securities when their additional yield justifies their additional risk
- Uses research to uncover inefficient sectors of the government and mortgage- and asset-backed markets and adjusts portfolio positions to take advantage of new information
- Measures the potential impact of supply/demand imbalances, changes in the relative yields for securities with different maturities, and changing prepayment patterns to identify individual securities that balance potential return and risk

Foreign government debt

In selecting foreign government debt, the subadviser considers and compares the relative yields of various foreign government obligations. The subadviser diversifies this portion of the portfolio by spreading assets among countries and regions. The subadviser also may attempt to preserve the U.S. dollar value of securities by using currency derivatives to hedge foreign currency exposure. The subadviser looks for:

- Economic and political conditions within the issuer's country
- Overall and external debt levels and debt service ratios
- Access to capital markets
- Debt service payment history

U.S. and foreign corporate debt securities In selecting U.S. and foreign corporate debt securities, the manager considers and compares the relative yields of various types of obligations and employs a forward looking strategy seeking to identify companies that exhibit or demonstrate a potential for higher ratings over time.

The manager considers the issuer's:

- Financial condition
- Sensitivity to economic conditions and trends
- Operating history
- Experience and track record of management

The manager also employs an active sell strategy to dispose of securities that have a rising risk of default due to material changes in management, operations, earnings, or other internal or external factors

---

**5. Smith Barney Dividend and Income Fund  
(Prospectus filed November 28, 2003)**

Selection process

Equity investments

The manager's investment strategy for equity investments consists of individual company selection. The manager looks for investments among a strong core of growth and value stocks, consisting primarily of dividend-paying, blue chip companies dominant in their industries. The fund may also invest in companies with prospects for sustained earnings growth and/or a cyclical earnings record.

In selecting individual companies for the fund's portfolio, the manager looks for the following:

- Current yield or potential for dividend growth
- Strong or rapidly improving balance sheets
- Recognized industry leadership
- Effective management teams that exhibit a desire to earn consistent

In addition, the manager considers the following characteristics:

- Consistency and growth of dividends
- Past growth records
- Future earnings prospects
- Technological innovation
- General market and economic factors

Generally, companies in the equity portion of the fund's portfolio fall into one or more of the following categories:

- Undervalued companies: companies with assets or earning power that are either unrecognized or undervalued. The manager generally looks for a catalyst that will unlock these values. The manager also looks for companies that are expected to have unusual earnings growth or whose stocks appear likely to go up in value because of market changes in the way they do business (for example, a corporate restructuring).
- Growth at a reasonable price: companies with superior demonstrated and expected growth characteristics whose stocks are available at a reasonable price. Typically, there is strong recurring demand for these companies' products.

#### Fixed Income Investments

The fund invests in a broad range of fixed-income securities. In selecting individual fixed income securities for the fund's portfolio, the manager primarily focuses on the relative yields of securities and at various maturities. The manager looks for:

- Favorable sector and maturity weightings based on interest rate outlook
- Stable or improving credit quality
- Low price relative to credit and interest rate characteristics

---

#### 6. Smith Barney High Income Fund (Prospectus filed November 28, 2003)

SELECTION PROCESS The manager attempts to minimize the risk of any individual security by diversifying the fund's investments across a range of issues, industries and maturity dates. In selecting high yield corporate fixed income securities, the manager considers and compares the relative yields of various types of obligations and employs a forward looking strategy seeking to identify companies that exhibit favorable earnings prospects or demonstrate a potential for higher ratings over time. The manager looks for:

- Well-known companies with credit ratings within the upper- and middle-rated tiers of the high-yield debt market
- "Fallen angels" or companies that are repositioning in the marketplace which the manager believes are temporarily undervalued
- Younger companies with smaller capitalizations that have exhibited improving financial strength or improving credit ratings over time

The manager also employs an active sell strategy to dispose of securities that have a rising risk of default due to material changes in management, operations, earnings, or other internal or external factors.